

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 25, 2008 Through May 15, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PERRY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
June 25, 2008 Through May 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Perry County Sheriff for the period June 25, 2008 through May 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$11,027,310 for the districts for 2008 taxes, retaining commissions of \$427,961 to operate the Sheriff's office. The Sheriff distributed taxes of \$10,602,186 to the districts for 2008 taxes. Taxes of \$484 are due to the districts from the Sheriff and refunds of \$4,175 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

| | |
|---|----|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| SHERIFF'S SETTLEMENT - 2008 TAXES..... | 3 |
| NOTES TO FINANCIAL STATEMENT | 5 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 11 |
| COMMENT AND RECOMMENDATION | 15 |



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the Perry County Sheriff's Settlement - 2008 Taxes for the period June 25, 2008 through May 15, 2009. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid for the period June 25, 2008 through May 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, County Judge/Executive
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 22, 2010

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period June 25, 2008 Through May 15, 2009

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 697,817 | \$ 1,511,049 | \$ 3,004,974 | \$ 915,415 |
| Tangible Personal Property | 270,812 | 765,977 | 1,176,250 | 1,214,720 |
| Fire Protection | 4,508 | | | |
| Increases Through Exonerations | 71 | 55 | 305 | 1,665 |
| Current year Franchise - Billed | 62,122 | 168,957 | 272,528 | |
| Prior Year Franchise - Billed | 39,430 | 97,281 | 163,041 | |
| Additional Billings | 2,168 | 4,686 | 8,998 | 2,846 |
| Oil and Gas Property Taxes | 12,769 | 27,599 | 53,000 | 16,751 |
| Limestone, Sand and Mineral Reserves | 123,405 | 266,220 | 511,917 | 161,848 |
| Penalties | 13,158 | 29,663 | 56,229 | 23,006 |
| Adjusted to Sheriff's Receipt | (199) | 1,877 | 2,957 | 2,174 |
| Gross Chargeable to Sheriff | <u>1,226,061</u> | <u>2,873,364</u> | <u>5,250,199</u> | <u>2,338,425</u> |
| <u>Credits</u> | | | | |
| Exonerations | 13,275 | 31,277 | 57,345 | 30,678 |
| Discounts | 14,472 | 33,972 | 62,026 | 29,942 |
| Delinquents: | | | | |
| Real Estate | 39,639 | 84,689 | 165,819 | 51,271 |
| Tangible Personal Property | 2,748 | 7,774 | 11,857 | 6,489 |
| Franchise Taxes | | | | |
| Current Year Franchise - Delinquent | 15 | 43 | 75 | |
| Prior Year Franchise - Delinquent | 2,212 | 5,952 | 9,169 | |
| Total Credits | <u>72,361</u> | <u>163,707</u> | <u>306,291</u> | <u>118,380</u> |
| Taxes Collected | 1,153,700 | 2,709,657 | 4,943,908 | 2,220,045 |
| Less: Commissions (a) | <u>49,320</u> | <u>115,160</u> | <u>168,842</u> | <u>94,639</u> |
| Taxes Due | 1,104,380 | 2,594,497 | 4,775,066 | 2,125,406 |
| Taxes Paid | 1,104,866 | 2,594,688 | 4,777,543 | 2,125,089 |
| Refunds (Current and Prior Year) | 99 | 202 | 434 | 129 |
| 10% Penalty | | | | <u>10</u> |
| Due Districts or (Refunds Due Sheriff) as of Completion of Audit | <u>\$ (585)</u> | <u>\$ (393)</u> | <u>\$ (2,911)</u> | <u>\$ 198</u> |
| | | (b) | (c) | |

(a), (b), and (c) - See Next Page.

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY
 JOHN LESLIE BURGETT, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period June 25, 2008 Through May 15, 2009
 (Continued)

(a) Commissions:

| | | |
|----------|----|-----------|
| 10% on | \$ | 10,000 |
| 4.25% on | \$ | 6,073,402 |
| 3.5% on | \$ | 4,104,860 |
| 3% on | \$ | 839,048 |

(b) Special Taxing Districts:

| | | |
|--------------------|----|-------|
| Library District | \$ | (283) |
| Health District | | (54) |
| Extension District | | (47) |
| Soil District | | (9) |
| | | <hr/> |

| | | |
|---------------------|----|--------------|
| Refunds Due Sheriff | \$ | <u>(393)</u> |
|---------------------|----|--------------|

(c) School Taxing Districts:

| | | |
|------------------------|----|------------|
| Common School District | \$ | (3,197) |
| Graded School District | | <u>286</u> |

| | | |
|--|----|----------------|
| Due District and (Refund Due Sheriff) | \$ | <u>(2,911)</u> |
|--|----|----------------|

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Perry County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Perry County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2008 through May 15, 2009.

B. Oil and Gas Taxes

The collection period for 2007 gas taxes was September 24, 2008 through May 15, 2009. The collection period for 2007 omitted gas taxes and 2008 gas taxes were November 18, 2008 through May 15, 2009. The collection period for 2008 oil taxes collections was November 18, 2008 through May 15, 2009.

Note 4. Interest Income

The Perry County Sheriff earned \$2,147 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected \$84,984 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected \$9,120 of advertising fees and \$6,065 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2009
(Continued)

Note 7. Tax Escrow Account

The Tax Escrow Account was opened on May 11, 2005 to deposit any unrefundable duplicate payments and unexplained receipts from the Sheriff's Settlement - 2003 Taxes in an interest bearing account. The beginning balance in the account as of June 25, 2008 was \$49,555. Interest in the amount of \$182 was received and no funds were expended, leaving a cash balance of \$49,737 as of May 15, 2009.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Perry County Sheriff's Settlement - 2008 Taxes for the period June 25, 2008 through May 15, 2009, and have issued our report thereon dated June 22, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2008 Taxes for the period June 25, 2008 through May 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Perry County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Perry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 22, 2010

COMMENT AND RECOMMENDATION

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
COMMENT AND RECOMMENDATION

For The Period June 25, 2008 Through May 15, 2009

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. A significant deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. One employee's duties include collecting cash, recording taxes paid daily, preparing bank deposits, preparing monthly tax reports, preparing checks, and reconciling the bank account. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. A material weakness occurs when a significant deficiency, or combination of significant deficiencies, results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

If the Sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting daily deposits, agreeing deposits to daily tax report, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should also review reconciliations of taxes collected to taxes paid. The Sheriff should document these reviews by initialing and dating the bank deposit, daily checkout sheet, receipts ledger, and reconciliations. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this material weakness in internal control.

Sheriff's Response: We are making progress in this matter.

